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# THE FARM CREDIT COUNCIL

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Statement of  
Kenneth Auer, President and CEO  
The Farm Credit Council  
Before  
Farm Credit Administration  
Public Meeting on Farm Credit System Service to  
Young, Beginning and Small Farmers  
November 13, 2002  
Kansas City, Missouri

Chairman Reyna and board members Jorgensen and Flory, thank you for the opportunity to appear before you this morning. We very much appreciate the opportunity to provide you our thoughts regarding the Farm Credit Administration's (FCA) oversight of the Farm Credit System's service to young, beginning and small farmers and to discuss whether there needs to be any change in that oversight. I would note that the agency has also published an advanced notice of public rulemaking (ANPR) regarding this matter and the comment period for that is open until December 23. The Farm Credit Council will be submitting extensive comments in response to that notice that will supplement what I will be presenting to you this morning.

We recognize that this public meeting and the ANPR is in large part a response to a report issued by the General Accounting Office that was a bit critical of FCA's oversight of the System's lending to young, beginning and small farmers. Thank you for having this meeting. This gives us a chance to set the record straight about a few things.

First, Mr. Chairman and board members, in my view your agency got a bum rap from GAO. I say that because FCA currently is doing absolutely everything you are supposed to be doing under the Farm Credit Act as it relates to system lending in support of young, beginning and small farmers. GAO suggested FCA should promulgate regulations that would outline specific activities and standards for System YBS programs and that you should disclose the YBS activities of individual System institutions. GAO just got it wrong. Their suggestions are inconsistent with the clear language of the Farm Credit Act.

Congress was very specific in writing the language that deals with young, beginning and small farmers -- Sections 4.19 and 5.17. Section 4.19 sets out the requirements for YBS programs. The language is clear that System YBS programs are to be operated under policies established by the boards of directors of System banks, not policies established by FCA. Likewise, Congress directed that the programs of the associations be reviewed and approved by the supervising banks, not by the FCA.



Congress gave the authority to the boards of directors because Congress knew those boards are comprised of farmers and ranchers who understand very well what is necessary to get started and to be successful in agriculture. The boards understand what sound and constructive credit means for a young person. Congress knew that the decisions regarding what these programs should entail are better made by those who have direct experience in farming and ranching rather than by those whose experience is in regulating.

In fact, the only mention of FCA in Section 4.19 is the requirement that the banks provide the agency with an annual report summarizing the operations and achievements in their districts. Neither the Act nor the legislative history surrounding these provisions even suggest that FCA should have a role in establishing standards for System YBS programs. Congress did speak to the role of FCA in Section 5.17. The role they reserved for the agency was to provide Congress with an annual summary and analysis of the reports provided the agency by the System banks. Congress did not ask for or suggest that FCA rate the performance of individual institutions. They didn't suggest FCA should publish the information from each institution, only the banks. They didn't say FCA should require System institutions to incur extra costs by doing an annual census of young, beginning and small farmers in their service areas. Congress just said to FCA give us annually a summary and analysis of the reports provided to you by the banks. That is what the law says and that is what the agency has been doing correctly for decades.

In 1996 Congress told the agency something else – to identify and eliminate all regulations that are unnecessary, unduly burdensome or costly, or not based on law. They didn't say come up with new regulations, that are not based on law, that impose costly new burdens on System institutions and that will not result in one new loan being made to a young, beginning or small farmer.

GAO got it wrong and their error should not be compounded by FCA proposing new requirements that will absorb valuable resources and return nothing.

The Farm Credit System is extremely proud of its record of serving young, beginning and small farmers, and it has every right to be. You have the numbers and the testimony you are receiving today expands on them. Over the most recent three year span, the System made over 76,000 loans to young farmers worth about \$6.9 billion; over 95,000 loans to beginning farmers, worth about \$9.8 billion; and over 270,000 loans to small farmers, worth over \$16 billion. In addition, the System has spent millions of dollars and thousands of man hours working to support local FFA programs, putting on educational seminars, judging 4H projects, etc. etc.

Farm Credit directors and employees understand that their future customers are the young and beginning farmers that they are working hard to serve today. They know many of these people first hand because they are the sons and daughters of existing customers. Their motivation in serving these customers is to make them successful – not to produce one more notch in the measuring stick of young, beginning and small farm loans. That's as it should be.

The mission of the System is to help maintain and improve the quality of life in rural America and on the farm, through its constant commitment to competitive lending, expert financial services, and a feeling of partnership with its customers. The System serves all types of

agricultural producers who have a basis for credit. Does the System have more money outstanding to large farmers – sure it does because larger farmers borrow more money to run their operations. That is totally consistent with the System’s mission. Could the System do more to serve small borrowers? Sure it could, provided that it gets the regulatory relief necessary to enable it to meet the full credit needs of small farmers.

We have petitioned the agency to change its regulations to address this issue. We urge that before you move in the direction of adding new regulatory burdens, do what Congress said to do back in 1996 and remove the regulations that are hindering the System’s ability to fully serve small, young and beginning farmers today. That is the most appropriate step for the agency to take.

Again, we appreciate you having this public meeting. We will be providing additional comments to you in response to the ANPR, and we look forward to working with you to ensure that all types of agricultural producers have the access they deserve to the Farm Credit System for all of their credit needs. Thank you.